

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7720

Petition of Village of Morrisville Water & Light )  
Department Pursuant to 30 V.S.A. § 108(c) for )  
Authority to Issue Long-term Tax-Exempt Debt )  
of up to \$2.5 Million )

Order entered: 3/25/2011

**I. INTRODUCTION**

On February 16, 2010, the Village of Morrisville Water & Light Department ("Morrisville") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(c) to finance up to \$2.5 million in improvements (the "Improvements") to Morrisville's hydroelectric facilities located at the Morrisville and Cady's Falls dams on the Lamoille River, and the Green River dam located on the Green River, in Lamoille County (collectively, the "Facilities"). Morrisville proposes to finance the Improvements through a local bank by issuing a tax-exempt ten-year balloon note with a twenty-year amortization (the "Loan"). The Petition was supported by the testimony of Craig T. Myotte, Morrisville's General Manager, and by accompanying exhibits.

On March 3, 2011, the Department of Public Service ("DPS") informed the Board by letter that it had reviewed the Petition and supporting documentation. Based on its review, the DPS recommended that the Board find the Company's Petition to be consistent with the general good of the State without hearing or further investigation.

On March 18, 2011, the DPS filed its Determination Under 30 V.S.A. § 202(f) with the Board, finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

On March 23, 2011, the Clerk of the Board issued an electronic mail message informing Morrisville that additional financial information was needed in order to complete the review of the Petition.

On March 23, 2011, Morrisville filed the additional financial information.

I have reviewed the Petition and the supporting testimony. I conclude that approval of Morrisville's Petition pursuant to 30 V.S.A. § 108(c) is appropriate and that such approval may occur without hearing. Based upon the evidence of record, including the DPS letters of March 3 and 18, 2011, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

## **II. FINDINGS**

1. Morrisville is a company as defined by 30 V.S.A. § 201 and as such is subject to the Board's jurisdiction pursuant to 30 V.S.A. §§ 108 and 203. Morrisville is also a duly organized municipal electric utility under 30 V.S.A. Chapter 79. Morrisville owns and operates a municipal electric system serving a portion of Morrisville, Vermont, and several surrounding towns. Petition at 1.

2. Morrisville owns and operates three hydroelectric facilities, the Cady's Falls Plant, the Morrisville Plant, and the Green River Plant, all located in Lamoille County. Morrisville proposes to make various improvements to two of the Facilities, the Cady's Falls Plant and the Morrisville Plant. The Improvements are based on recommendations made by H.L. Turner Group which Morrisville hired to conduct a complete hydropower audit in 2009. The average production from the Facilities over the past ten years is approximately 9.1 million kWh annually. This represents approximately 18% of Morrisville's total energy needs. Myotte pf. at 3-4, 9.

3. The Cady's Falls development was originally built in 1894 and reconstructed in 1947. It is located on the Lamoille River approximately two miles downstream from the Village of Morrisville. The facility consists of two generating units with a total installed capacity of 1,300 kW, although one of the units has not operated since April 2008. The dam is a concrete structure 41 feet high and 371 feet long with a 186-foot spillway and a 9-foot diameter steel penstock that is 1,100 feet long. The reservoir, known as Lamoille Lake, has a surface area of 150 acres. The ten-year average generation for the facility is approximately 3.1 million kWh annually. Myotte pf. at 4-5.

4. The Improvements to the Cady's Falls Plant will consist of six components:

- (i) New head gates. The existing head gates were installed in the 1940's and have reached the end of their useful life. Having new head gates will allow Morrisville to safely conduct inspections and perform maintenance when needed.
- (ii) New surge tank gates. The existing surge tank gates were installed in the 1940's and have reached the end of their useful life. Having new surge tank gates will allow Morrisville to safely conduct inspections and perform maintenance when needed.
- (iii) Generator repair. One of the hydroelectric generator units is currently out of service and Morrisville proposes to put it back into full service. Once repaired, the generator unit is estimated to provide an additional 2.5 million kWh of power for Morrisville on an annual basis.
- (iv) Mechanical crest control. To maximize hydroelectric production, the plant currently uses wooden flash boards measuring four feet in height. The plant has experienced flash board failure, due to high river flows and debris, about 10% of the time on an annual basis resulting in the loss of energy production. Replacing all or portions of the flash boards with a mechanical crest control system will provide Morrisville with an estimated 800,000 kWh of additional energy production annually.
- (v) Rack raker. Debris frequently accumulates on the racks that screen the water flowing into the hydroelectric generators. Morrisville currently clears away the debris manually. Installation of an automatic rack raker, in conjunction with the new head gates, will improve water flow by allowing the racks to be cleared more often. The new rack raker is estimated to provide Morrisville with an additional 200,000 kWh of energy production annually.
- (vi) Supervisory Control and Data Acquisition ("SCADA") system. Morrisville is currently in the five-year relicensing process with FERC to relicense Morrisville's entire hydro system by 2015. As part of the process, Morrisville learned that it needs to install equipment to collect data on the river system conditions at the Cady's Falls facility. The new SCADA system will allow Morrisville to collect this information.

Myotte pf. at 7-9; exh. Morrisville-2.

5. The Morrisville Plant was constructed in 1924 and is also located on the Lamoille River. This facility consists of two generating units with a total installed capacity of 1,800 kW. The dam is a concrete structure 37 feet high and 250 feet long consisting of two spillways 216 feet

and 60 feet in length and two steel penstocks 7 feet and 10 feet in diameter and 150 feet long. The reservoir, known as the Morrisville reservoir, has a surface area of 15 acres. The ten-year average generation for the facility is approximately 4.8 million kWh annually. Myotte pf. at 5.

6. The Improvements at the Morrisville Plant will consist of two components:

- (i) Mechanical crest control. As with the Cady's Falls Plant described above, the Morrisville Plant also needs to replace its wooden flash boards with a mechanical crest control system. Morrisville estimates that this improvement will increase the output of the facility by 1.0 million kWh annually.
- (ii) SCADA system. Similar to the Cady's Falls Plant, the Morrisville Plant will also need to install SCADA equipment to collect data on river system conditions.

Myotte pf. at 9; exh. Morrisville-2.

7. Morrisville requests Board approval to finance up to \$2.5 million through a local bank to pay for the cost of the Improvements. The Loan will consist of a note based on a twenty-year amortization with a balloon payment due at the end of ten years, and will carry an estimated tax-exempt interest rate of 4.25%. However, because the issuance will not take place until mid-2011, and market conditions are subject to change, Morrisville requests approval to issue the Loan at an interest rate of up to 5%. The annual payment amount for the Loan at the 4.25% interest rate is estimated to be \$185,000. The estimated balloon payment at the end of ten years will be \$1,521,400. Myotte pf. at 10.

8. Morrisville expects that the combination of increased power output and lower power-supply expenses resulting from the Improvements will generate sufficient additional cash flow to offset the annual loan payments. Morrisville has two options relative to meeting the ten-year balloon payment: (i) apply proceeds in the amount of \$1,172,000 from a pending sale of property to the Trust for Public Land (the "Trust");<sup>1</sup> or (ii) refinance the balance of the Loan for an additional term at the time the balloon payment comes due. Morrisville chose the balloon payment option because a fixed-rate loan for twenty years charged a higher interest rate of 6%. Myotte pf. at 11.

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1. Morrisville is in the process of selling land referred to as "Zack Woods" to the Trust. At the annual meeting held in April 2009, the Village voters approved the use of the proceeds from the sale to be applied toward the cost of the proposed Improvements. Myotte pf. at 11.

9. Morrisville estimates that the Improvements will increase average annual hydroelectric production by approximately 4.5 million kWh thus reducing the need to purchase power from outside sources. The Facilities currently supply 18% of Morrisville's energy needs; Morrisville estimates that this load will increase to 28% after the Improvements are completed. Morrisville also expects that the Improvements will allow the Facilities to be operated more safely and will improve the reliability of the overall system. Myotte pf. at 13.

10. Morrisville is a member of the Vermont Public Power Supply Authority ("VPPSA") and requested that VPPSA prepare a cost/benefit analysis for the planned Improvements at the Cady's Falls Plant. VPPSA concluded that the Improvements would provide a ten-year net present value of \$2,044,000 and that the rebuild of the Cady's Falls generator would increase the average annual output for the plant by 2.5 million kWh. Myotte pf. at 13-15; exh. Morrisville-3.

11. Morrisville issued Request for Proposals for the engineering design, bid preparation, and construction management services for the Improvements. Morrisville awarded the engineering work to the lowest bidder, H.L. Turner Group. The final costs of the Improvements will not be known until all bid documents are issued for each component of the Improvements. According to Morrisville's initial cost/benefit analysis, the Cady's Falls project is estimated to cost between \$1.6 and 1.69 million, and yield an annual benefit of between \$230,370 and \$252,560 (Low Case), and \$618,150 and \$697,800 (High Case),<sup>2</sup> as a result of increased output and elimination of the costs associated with the current equipment. The cost of the Improvements at the Morrisville Plant are estimated to total between \$170,000 and \$255,000, and yield an annual benefit of between \$58,100 and \$73,080 (Low Case), and \$124,500 and \$156,600 (High Case). Electronic Mail of Morrisville dated 3/24/11 and attached spread-sheet; Myotte pf. at 14.

12. Pursuant to Section 5(H) of the Power Sales Agreement ("PSA") between VPPSA and Morrisville for output from the Swanton Peaking Generation Project ("Project 10"), Morrisville is obligated to notify the Board in any Section 108(c) proceeding of the existence of Morrisville's obligations that are set forth in the PSA with respect to repayment of principal, premium, and

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2. Morrisville's cost/benefit analysis considers three separate scenarios – Low Case, Base Case, and High Case – for the Improvements based on average cost of power over a ten-year period which was included in VPPSA's forecast. The Low Case assumes \$.07 per kWh. The Base Case assumes \$.11 per kWh. The High Case assumes \$.15 per kWh.

interest on any bonds or notes issued to support Project 10. Specifically, Morrisville agreed to fix, revise and collect rates at least sufficient to provide revenues adequate to meet its obligations under the PSA and to pay all other amounts payable from or constituting a charge and lien upon its revenues. In addition, Morrisville agreed that payments to VPPSA under the PSA are absolute and unconditional, and such payments shall be made whether or not Project 10 is completed or operational. The PSA and VPPSA's revenues under the PSA, in conjunction with all other Project 10 PSAs, are the security for the Project 10 bonds. These obligations should not have an impact on the proposed financing as they are currently factored into Morrisville's power-supply budget. Myotte pf. at 16-17; exh. Morrisville-4.

13. Upon Board approval of Morrisville's financing request, Morrisville will schedule a vote to seek voter approval of the issuance pursuant to 30 V.S.A. § 108(c)(3). Myotte pf. at 12.

### **III. DISCUSSION & CONCLUSION**

Based upon the findings and the evidence in the record, I find that Morrisville's proposed issuance of long-term debt as described above will be consistent with the general good of the State. I therefore recommend that the Board approve Morrisville's request to issue a tax-exempt ten-year balloon note up to the amount of \$2.5 million through a local bank, to fund the costs associated with the proposed Improvements to the Facilities as outlined in the Findings above.

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. § 811.

Dated at Montpelier, Vermont this 25th day of March, 2011.

s/ Jay E. Dudley  
Jay E. Dudley  
Hearing Officer

#### **IV. ORDER**

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are accepted and adopted.

2. The Board consents to the request of the Village of Morrisville Water & Light Department ("Morrisville") to issue a tax-exempt ten-year balloon note based on a twenty-year amortization in an amount up to \$2.5 million through a local bank, to fund the costs for certain improvements to be made to its hydroelectric facilities located at the Cady's Falls Plant and the Morrisville Plant, all as described in the Findings above.

3. Morrisville shall not exceed, without prior Board approval, the following limitations on the terms and conditions of the proposed debt issuance:

Maximum interest rate: 5.0%

Maximum term: 20-year amortization with a 10-year balloon

4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Morrisville may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.

5. Morrisville shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.

6. Morrisville shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 25th day of March, 2011.

<u>s/ James Volz</u>	)	
	)	PUBLIC SERVICE
<u>s/ David C. Coen</u>	)	
	)	BOARD
	)	
<u>s/ John D. Burke</u>	)	OF VERMONT

OFFICE OF THE CLERK

FILED: March 25, 2011

ATTEST: s/ Susan M. Hudson  
Clerk of the Board

*Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)*

*Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.*